

FISCAL NOTE

Bill #: SB0351

Title: Increase cigarette tax to fund social services

Primary Sponsor: Cobb, J

Status: As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary

Revenue:

General Fund

SSRA LRBP

SSRA DPHHS (Vet. Nursing Homes)

SSRA DPHHS (Social Services)

FY 2004

Difference

(\$15,011)

\$2,666

\$16,603

\$16,583,981

FY 2005

Difference

(\$126,253)

(\$21,603)

(\$804)

\$16,138,311

Net Impact on General Fund Balance:

(\$15,011)

(\$126,253)

- | | |
|--|--|
| <input type="checkbox"/> Significant Local Gov. Impact
<input type="checkbox"/> Included in the Executive Budget
<input checked="" type="checkbox"/> Dedicated Revenue Form Attached | <input type="checkbox"/> Technical Concerns
<input checked="" type="checkbox"/> Significant Long-Term Impacts
<input checked="" type="checkbox"/> Needs to be included in HB 2 |
|--|--|

Fiscal Analysis

ASSUMPTIONS:

1. The current law cigarette tax rate is \$0.18 per pack; under this proposal, the cigarette tax rate is increased by \$0.30 to \$0.48 per pack.
2. Under current law, cigarette tax revenues, after tribal revenue sharing payments, are distributed 73.04% to the state general fund; 15.85% to the Long-Range Building Program Account; and 11.11% to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes.
3. Under this proposal, cigarette tax revenues, after tribal revenue sharing payments, are distributed 60.93% to the Department of Public Health and Human Services for providing social services; 28.47% to the state general fund; 6.20% to the Long-Range Building Program Account; and 4.40% to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes.
4. This proposal decreases the discount rates that wholesalers receive. The rates drop from 6% of the full face value of the insignia (tax) to 2.25% for the first 2,580 cartons purchased; from 4% to 1.50% for the next 2,580 cartons purchased; and from 3% to 1.12% for purchases in excess of 5,160 cartons.
5. Increasing the cigarette tax rate from \$0.18 to \$0.48 per pack will generate new net revenue of \$16,588,087 in fiscal 2004 and \$15,989,642 in fiscal 2005. Revenue to the state general fund will **decrease** by \$15,011 in fiscal 2004 and \$126,253 in fiscal 2005. Revenue to the Long-Range Building Program Account will **increase** by \$2,666 in fiscal 2004 and **decrease** by \$21,603 in fiscal 2005. Revenue to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes will **increase** by \$16,603 in fiscal 2004 and **decrease** by \$804 in fiscal 2005. Revenue to the Department of Public Health and Human Services for providing social services will **increase** by \$16,583,981 in fiscal 2004 and \$16,138,311 in fiscal 2005.

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(continued)

6. The impacts in assumption five are calculated using a model developed by the Department of Revenue (DOR). The Revenue and Transportation Committee (RAT) cigarette tax revenue estimate under current law for fiscal years 2004 and 2005 is used as the base. In addition to RAT's base estimate, a price elasticity of demand for cigarettes of 0.44 is used in this model. The model assumes the price of a pack of cigarettes will increase by the same amount (in dollars) of a tax increase. Given a base cost of \$3.21 per pack, which is used in this model, and an elasticity of 0.44, each penny increase in the price of a pack of cigarettes results in a decrease in demand of 0.14%.
7. The cigarette tax impacts provided for in this fiscal note include impacts associated with the price elasticity of demand for cigarettes, but do not include forecasts of declines in consumption of taxable cigarettes due to Internet sales of cigarettes, the impacts of current and future local government resolutions providing for non-smoking ordinances, or the effects of future increased tobacco prevention programs. These issues are being explored by the Department and will be incorporated in cigarette tax change impact analyses as data and forecast methodologies are further developed and refined.
8. The following table shows the summary of the impacts from the cigarette tax increase under the assumption that there will not be significant stockpiling by the wholesalers or retailers of cigarettes taxed at \$0.18 per pack, and there will not be significant amounts of illegal sales of cigarettes.

SB351 As Introduced Summary of Cigarette Increase Impacts ¹		
	FY2004	FY2005
Cigarette Tax		
Net Revenue		
Revenue - Current Law	\$ 10,630,000	\$ 10,497,000
Revenue - Proposed Law	\$ 27,218,087	\$ 26,486,642
Change In Revenue	\$ 16,588,087	\$ 15,989,642
% Change In Revenue	156.0%	152.3%
Change in Revenue		
General Fund	\$ (15,011)	\$ (126,253)
LRBP	\$ 2,666	\$ (21,603)
DPHHS (Vet. Nursing Homes)	\$ 16,603	\$ (804)
DPHHS (Social Services)	\$ 16,583,981	\$ 16,138,311

¹The impacts are calculated on the basis that there will not be significant stockpiling by wholesalers and retailers, and there will not be significant amount of illegal sales of cigarettes.

9. This bill is effective July 1, 2003, and the new tax rate applies to cigarette sales made after June 30, 2003.
10. Section 4 of this bill provides that wholesalers, distributors, and retailers shall pay the difference in tax between the former tax rate and the new tax rate on that portion of inventory subject to tax held by them on July 1, 2003, that exceeds all inventory subject to tax held by them on the last day of their most recently concluded income tax reporting year. The fiscal impacts in this fiscal note assume there will be no revenue impact in fiscal 2003 pursuant to section 4 of this bill.

FISCAL IMPACT:

Revenues:

General Fund (01)
SSRA LRBP (02)

FY 2004
Difference
(\$15,011)
\$2,666

FY 2005
Difference
(\$126,253)
(\$21,603)

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(continued)

SSRA DPHHS (Vet. Nursing Homes) (03)	\$16,603	(\$804)
SSRA DPHHS (Social Services) (04)	\$16,583,981	\$16,138,311

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	(\$15,011)	(\$126,253)
SSRA LRBP (02)	\$2,666	(\$21,603)
SSRA DPHHS (Vet. Nursing Homes) (03)	\$16,603	(\$804)
SSRA DPHHS (Social Services) (04)	\$16,583,981	\$16,138,311

LONG-RANGE IMPACTS:

Revenue to the state general fund, Long-Range Building Program Account, and to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes will continue to be less than under current law.